

**REPORT OF THE AUDIT OF THE
LYON COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

April 12, 2006



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LYON COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES

April 12, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for Lyon County Sheriff as of April 12, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,854,353 for the districts for 2005 taxes, retaining commissions of \$158,369 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,695,060 to the districts for 2005 Taxes. No taxes are due to the districts from the Sheriff and refunds of \$19 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2005 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENT AND RECOMMENDATION	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor
Robert M. Burnside, Secretary
Finance and Administration Cabinet
Honorable James Campbell, Lyon County Judge/Executive
Honorable Kent Murphy, Lyon County Sheriff
Members of the Lyon County Fiscal Court

Independent Auditor's Report

We have audited the Lyon County Sheriff's Settlement - 2005 Taxes as of April 12, 2006. This tax settlement is the responsibility of the Lyon County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Lyon County Sheriff's taxes charged, credited, and paid as of April 12, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 21, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robert M. Burnside, Secretary
Finance and Administration Cabinet
Honorable James Campbell, Lyon County Judge/Executive
Honorable Kent Murphy, Lyon County Sheriff
Members of the Lyon County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 21, 2007

LYON COUNTY
KENT MURPHY, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

April 12, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 380,827	\$ 844,249	\$ 1,659,910	\$ 542,265
Tangible Personal Property	24,947	45,808	59,903	41,510
Intangible Personal Property				16,320
Fire Protection	442			
Increases Through Exonerations	21	52	91	30
Franchise Taxes	60,519	115,491	160,090	
Additional Billings	13	30	57	19
Bank Franchises	19,279			
Penalties	1,860	4,324	8,008	2,744
Adjusted to Sheriff's Receipt	36	15	(585)	9
Gross Chargeable to Sheriff	<u>487,944</u>	<u>1,009,969</u>	<u>1,887,474</u>	<u>602,897</u>
<u>Credits</u>				
Exonerations	1,764	3,942	7,609	2,564
Discounts	7,119	14,655	28,141	9,690
Delinquents:				
Real Estate	5,266	11,857	22,927	7,490
Tangible Personal Property	138	227	331	299
Intangible Personal Property				9
Franchise Taxes:				
Delinquent	814	1,356	2,059	
Uncollected	962	1,988	2,724	
Total Credits	<u>16,063</u>	<u>34,025</u>	<u>63,791</u>	<u>20,052</u>
Taxes Collected	471,881	975,944	1,823,683	582,845
Less: Commissions *	<u>20,343</u>	<u>40,020</u>	<u>72,947</u>	<u>25,059</u>
Taxes Due	451,538	935,924	1,750,736	557,786
Taxes Paid	451,437	935,699	1,750,285	557,639
Refunds (Current and Prior Year)	<u>103</u>	<u>230</u>	<u>460</u>	<u>150</u>
Refunds Due Sheriff as of		**		
Completion of Fieldwork	<u>\$ (2)</u>	<u>\$ (5)</u>	<u>\$ (9)</u>	<u>\$ (3)</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

LYON COUNTY
 KENT MURPHY, SHERIFF
 SHERIFF'S SETTLEMENT - 2005 TAXES
 April 12, 2006
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,628,448
4% on	\$	2,200,015
1% on	\$	15,890

** Special Taxing Districts:

Library District	\$	(1)
Extension District		(1)
Ambulance		(2)
Fire District 1		(1)
Refunds Due Sheriff	<u>\$</u>	<u>(5)</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENT

April 12, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LYON COUNTY
NOTES TO FINANCIAL STATEMENT
April 12, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 12, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 26, 2005 through April 12, 2006.

Note 4. Interest Income

The Lyon County Sheriff earned \$3,548 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder is to be used to operate the Sheriff's office. As of May 21, 2007, the Sheriff had distributed all interest that was due.

Note 5. Sheriff's 10% Add-On Fee

The Lyon County Sheriff collected \$12,396 of 10% add-on fees allowed by KRS 134.430(3). This amount is to be used to operate the Sheriff's office. As of May 21, 2007, the Sheriff did not owe any 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Lyon County Sheriff collected \$2,215 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees are to be used to operate the Sheriff's office. As of May 21, 2007, the Sheriff did not owe any advertising costs to the county or any advertising fees to his fee account.

COMMENT AND RECOMMENDATION

LYON COUNTY
KENT MURPHY, SHERIFF
COMMENT AND RECOMMENDATION

As of April 12, 2006

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily tax collection printout. Any differences should be reconciled. He should document this by initialing the bank deposit and the daily tax collection printout.
- The Sheriff should compare his daily tax collection printouts for each month to his monthly tax collection report for each district. Any differences should be reconciled. The Sheriff should document this by initialing this district's monthly tax collection report for the month being examined.
- The Sheriff should periodically compare payments made to the taxing districts per the monthly tax collection reports to the checks that were actually written. The Sheriff should document this by initialing the monthly tax collection report noting that the payment amount agreed with the check.
- The Sheriff should periodically compare the bank reconciliation to the checkbook balance. Any differences should be reconciled. The Sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: None.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James Campbell, Lyon County Judge/Executive
The Honorable Kent Murphy, Lyon County Sheriff
Members of the Lyon County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Lyon County Sheriff's Settlement - 2005 Taxes as of April 12, 2006, and have issued our report thereon dated May 21, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lyon County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. This reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lyon County Sheriff's Settlement - 2005 Taxes as of April 12, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

May 21, 2007

